

TAX BURDENS IN IDAHO AND ITS NEIGHBORING STATES

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Few policy issues have been studied as much as taxation. Past studies have achieved various degrees of success (or failure). We believe the starting point for any discussion of taxation is accurate and complete data. To this end, the Idaho State Tax Commission annually prepares and publishes the study entitled: *Comparative Tax Potential: Tax Burden in Idaho and the United States*. This article highlights some of this study's findings. The complete study can be obtained by contacting Alan Dornfest at the Idaho State Tax Commission.

Methodology

The concepts of tax capacity and tax effort play key roles in comparing state tax structures. The definitions for both are straightforward. Tax capacity is the amount of taxes a state would have raised in a fiscal year had it used the average tax rates for the nation. The average tax rates for the nation are calculated by taking the aggregated taxes for all states and the District of Columbia and dividing by either the U.S. personal income or U.S. population. The former measure provides the average tax rate per dollar of personal income and the latter provides a similar measure on a per capita basis. By taking the calculated U.S. tax rate and applying it to a state's personal income or population, we come up with its tax capacity. The states can then be ranked by their tax generation potential.

While tax capacity tells us how many tax dollars a state can potentially collect based on national average tax rates, it says nothing about whether a state is under or over utilizing a tax source. To do this we must calculate a state's tax effort. This estimate is simply the ratio (expressed as a percentage) of a state's actual tax collections to its tax capacity. For example, if a state's property tax effort is over 100%, then it is collecting more than the national average. This implies that state is over utilizing its property tax. Conversely, if a state's property tax effort is less than 100%, then it is under utilizing this revenue source. As in the case of tax capacity, tax effort can be measured either on a personal income or per capita basis.

All states can be ranked by their tax efforts. Traditionally, the state with the highest effort is ranked first and the one with the lowest tax effort is ranked 51st. (There are 51 ranks because this analysis traditionally includes Washington, D.C.) Simply put a higher-ranking means higher taxes compared to other states. The fiscal 1996 personal-income based tax efforts for the five major tax categories and the overall tax burden are covered in this article.

Before going any further, readers are reminded that no tax study is perfect. No matter how carefully conceived, constructed, and reported all studies have flaws. This one is no exception. First, although taxation is usually viewed as a dry topic, few policy areas are as dynamic as taxes and tax policy. For example, each year many states have one-time or atypical collections or refunds that may be large enough to affect a state's ranking and/or distort national averages used to compute each state's tax burden. For example, a \$250 million corporate income tax settlement in Alaska more than doubled the state's income tax effort in one year. In Oregon, individual income tax collections grew 34% from one year to the next because a special refund provision was triggered in one year but not the next. A special income tax refund provision in Utah caused net tax collections to tumble and its ranking to plummet from 9th place to 34th place. While any of these would have serious consequences in a given year, it is interesting to note that they all took place in the same fiscal year (1989). The current study appears to be relatively free of these types of anomalies.

It should also be pointed out that no study is completely inclusive. There is simply no way to consider all the taxes. Even if all the data were available, the usability of the analysis would be strained (and

probably collapse) under the weight of its increased complexity. The goal is to find the right combination. Thus, this study is necessarily a compromise between complexity and usability. It includes the following taxes: property, sales, individual income, corporate income, and motor vehicle. Together these account for about 90% of all the state and local taxes collected in fiscal year 1996.

Results

The first two tables show Idaho's tax effort ranks. The first chart summarizes the results of our analysis. Overall, Idaho's tax structure is well balanced. The chart shows that on a personal-income basis Idaho's overall tax effort was 100.8%, which earned it a rank of 24th. This is very close to the median of the states. While the Gem State's overall tax effort is well balanced, its individual pieces show more variation. A review of the estimated tax efforts and rankings for the individual pieces of the tax structure suggest the state has relied too heavily on income and motor vehicle taxes, has been pretty balanced in the sales tax, and has underutilized property taxes. Specifically, on a personal-income basis, the individual income tax effort was 121.9% of the national average, while the corporate income and motor vehicle tax efforts were 130.3% and 149.6%, respectively, of their national counterparts. This put them all well into the top half of all states. Idaho's sales tax effort of 96.7% gave it a ranking of 25th. Idaho's fiscal year 1996 property tax effort was 85%, and its rank was 34th. Notice the same results generally hold for estimates based on population. In fact, each category's ranking is lower on a per-capita basis compared to a personal-income basis. This reflects the relative youth of the state's population.

Table 1. Idaho Fiscal Year 1996 Tax Efforts and Rankings.

<i>Tax Type</i>	<i>Income Based</i>		<i>Population Based</i>	
	<i>Tax Effort (%)</i>	<i>Rank</i>	<i>Tax Effort (%)</i>	<i>Rank</i>
Property	85.0	34.0	69.4	35.0
Sales	96.7	25.0	79.0	36.0
Individual Income	121.9	15.0	99.5	27.0
Corporate Income	130.3	10.0	106.5	15.0
Motor Vehicle	149.6	9.0	122.2	13.0
Overall	100.8	24.0	82.3	40.0

What we have presented so far is a snapshot of Idaho's tax efforts. It would be interesting to see how Idaho's tax effort rankings have changed (or not changed) over the years. Table 2 provides us this view. It shows that Idaho's overall tax effort on a personal-income basis has climbed slowly this decade to about the national average. Idaho was ranked 28th in fiscal year 1991 and was down to 33rd in fiscal year 1993. It reversed direction thereafter, climbing to 24th in fiscal year 1996. A look at the components of Idaho's overall tax structure shows that although rankings have changed over time, these changes have generally not been large enough to change the conclusions we reached by examining just the fiscal year 1996 data. Namely, individual income and motor vehicle taxes are over utilized, sales tax is near the national average, and property taxes are under utilized. The notable exception is corporate income tax. The corporate tax effort went from being ranked close to the national average in fiscal year 1991 to well above it in fiscal year 1996. This rise reflects the increased profitability of the state's high-tech sector.

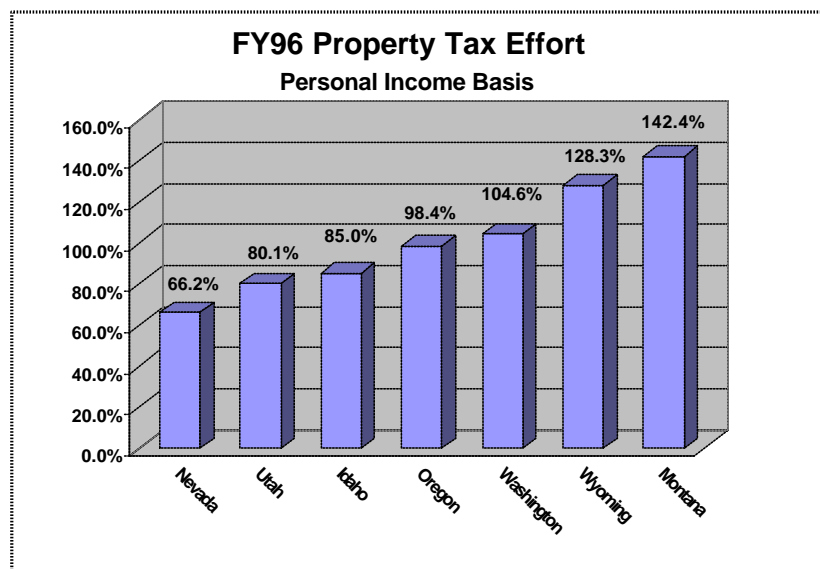
Table 2. Idaho Tax Effort Rankings for Fiscal Years 1991 to 1996.

<i>Tax Type</i>	<i>Income Basis for Rank</i>						<i>Population Basis for Rank</i>					
	<i>Fiscal Year</i>						<i>Fiscal Year</i>					
	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Property	35	37	37	37	35	34	37	39	38	38	37	35
Sales	28	24	27	22	25	25	36	35	34	34	36	36
Individual Income	13	15	16	15	16	15	24	25	26	24	27	27
Corporate Income	26	24	25	21	15	10	28	24	28	24	18	15
Motor Vehicle	9	7	6	6	9	9	11	13	12	9	16	13
Overall	28	29	33	25	23	24	42	40	39	38	40	40

Having determined Idaho's tax efforts relative to the nation, we now narrow our comparison to its border states. There are a couple of obvious reasons for this pursuit. First, the tax policies of Idaho's border states have a direct influence on the state. For example, the sales tax rate in one state can affect the shopping patterns in another state. This helps to explain why development in Southern Idaho favors the Oregon shores of the Snake River. Oregon has no sales tax while Idaho has a 5% sales tax. This leads to the second reason. Idaho is surrounded by states that have unusual tax structures. Of its six neighbors, only Utah, like Idaho, depends on income, property, and sales taxes. The other states have foregone this so-called "three-legged stool" structure for others that are less dependent on one of the legs and more dependent on the others. Of the four states in the U.S. that do not have a sales tax, two of them, Oregon and Montana, share borders with Idaho. Of the seven states without individual income taxes, three of those, Nevada, Washington, and Wyoming, border Idaho. All states have property and motor vehicle taxes.

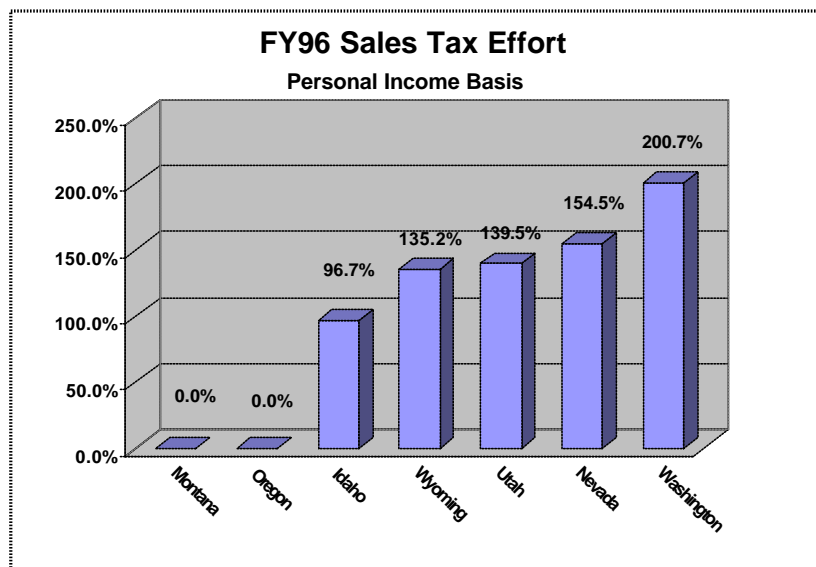
Property Tax

Every state in the nation has property taxes. This is not to suggest they are widely (or wildly) popular. Indeed, few taxes are more controversial than property taxes. For example, twice this decade property tax relief measures made it on to Idaho general election ballots. Both failed. The following chart shows that Idaho's property tax effort is among the lowest of the western states. Only Nevada's (66.2%) and Utah's (80.1%) tax efforts are lower. Interestingly, all the states with higher property tax efforts than Idaho also have tax structures that lack one of the legs of the "three-legged stool." Of these four states only Oregon's property tax effort is below the national average at 98.4%. Washington's property tax average is 104.6% of the U.S. average, Wyoming's is 128.3% and Montana's is 142.4%.



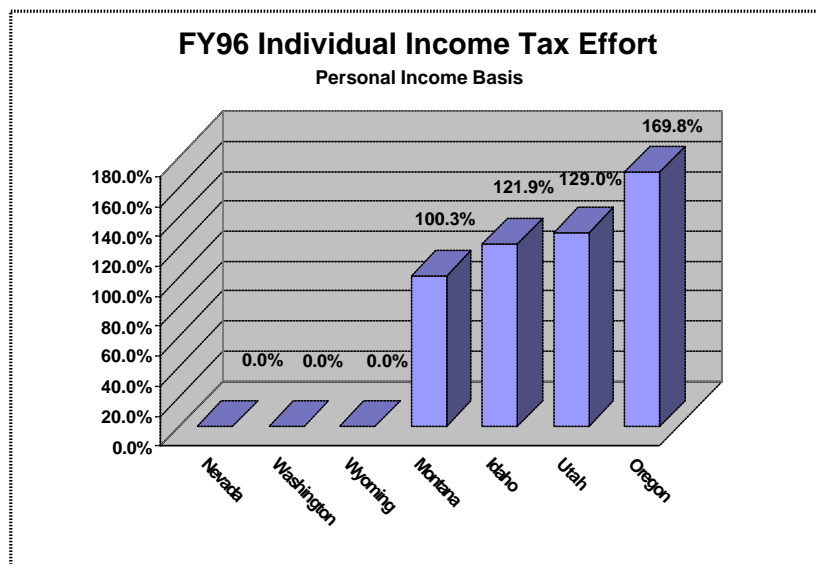
Sales Tax

Of the seven states discussed here, only five utilize a sales tax. They are Idaho, Nevada, Utah, Washington, and Wyoming. Not only is Idaho's sales tax effort the lowest among this group, at 96.7% it is the only one in the group that is below the national average. All the rest are above the average. In the case of Washington, it is well above the average. Specifically, Wyoming's sales tax effort is 135.2%, Utah's is 139.5%, Nevada's is 154.5%, and Washington's, which includes the business and occupation tax, is the nation's highest at 200.7%. It should be pointed out that even though the Silver State's sales tax effort is the 5th highest in the nation, the impact on Nevada citizens is overestimated because tourists paid for a relatively large portion of the total sales tax.



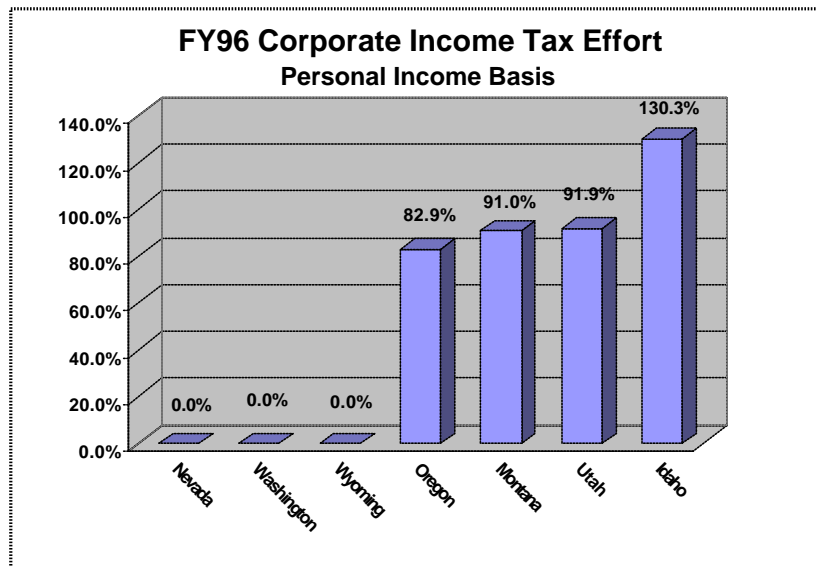
Individual Income Tax

As far as individual income taxes are concerned, the West is a region of extremes. Citizens of this group either pay no individual income taxes or are subject to above- average income taxes. Nevada, Washington and Wyoming do not have an individual income tax. Of the states in this group that levied a personal income tax, all of them are at least at the national average. Montana's tax effort is the lowest of this subgroup at 100.3%. Idaho is the next lowest at 121.9% with Utah's tax effort of 129.0% being slightly higher than Idaho's. Oregon's tax effort was 169.8% and made it not only the highest in the western states, but also the second highest in the nation.



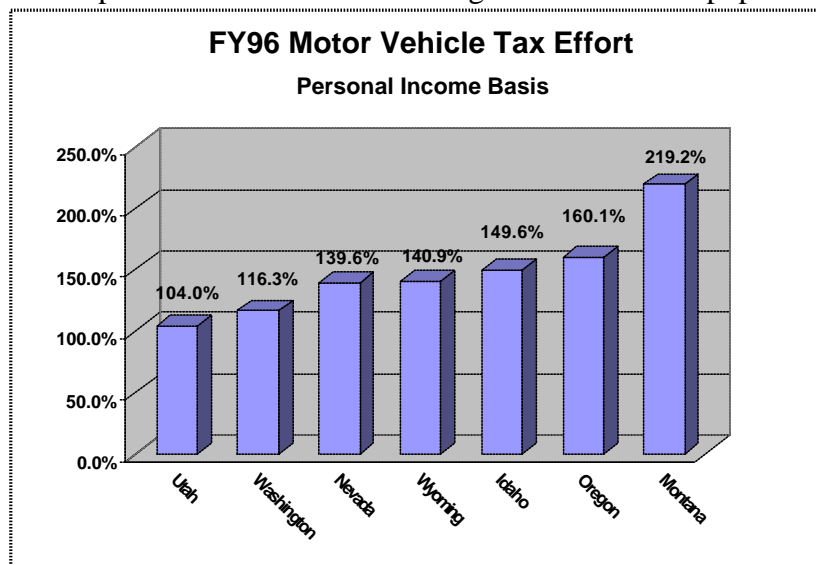
Corporate Income Tax

Most of the states in this group have a corporate income tax effort below the national rate. Idaho was the sole exception. Its tax effort was 130.3%, the 10th highest in the U.S. Idaho has traditionally had the highest tax effort of this group because its 8.0% corporate income tax rate is higher than any of its neighboring states' rates. However, its high ranking in fiscal year 1996 is an anomaly. This is because the corporate income tax effort is not only a function of the tax rate but also of corporate profits. Idaho's fiscal year 1996 corporate income tax effort reflected record profits by the state's high-tech industries caused by strong prices for semiconductors. Since that time, the prices for these devices have collapsed. Thus, we expect Idaho's corporate tax effort will rank lower in future studies. However, its ranking relative to its neighboring states is not expected to change much. The other three states in this group with a corporate income tax had the following corporate tax efforts: Oregon's was 82.9%, Montana's was 91.0%, and Utah's was 91.9%. The three remaining states do not impose an income tax on corporations. However, Washington does have a business and occupation tax that performs the same function as a corporate income tax, but it is included in the sales tax since it is assessed on gross receipts.



Motor Vehicle Taxes

This category includes motor vehicle licensing and registration fees as well as motor fuel taxes. All of the states have motor vehicle taxes. Idaho and its neighbors all have tax efforts above the national average. The motor vehicle tax efforts ranged from 104.0% in Utah to 219.2% in Montana. Idaho was toward the high end of the scale at 149.6%. This primarily results from the fact that it is more expensive to provide transportation infrastructure in large states with low population densities.



Overall Tax Effort

The “three-legged stool” tax structure appears to have served Idaho well. Whether viewed on a national or regional basis, the state’s overall tax structure appears to be one of balance. On the national level, Idaho’s 100.8% overall tax effort was within a hair of the median for all states. Montana was slightly closer at 99.4%. Ohio, with an overall tax effort of 100.2%, was nearest to the national overall tax effort. Idaho, however, was the median of the states in the region. Three states had lower tax efforts and three states had higher tax efforts. Oregon’s overall tax effort was 92.8%, Nevada’s was 97.8%, and Montana’s was 99.4%. The group with higher-than-average overall tax efforts consisted of Utah (103.6%), Wyoming (104.3%), and Washington (105.2%).

